

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 1, 2003



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert Ray Drake, Powell County Judge/Executive
Honorable Billy Joe Martin, Jr., Powell County Sheriff
Members of the Powell County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the Powell County Sheriff's Settlement - 2002 Taxes as of August 1, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Powell County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
POWELL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 1, 2003

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
POWELL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

August 1, 2003

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Powell County Sheriff as of August 1, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$440,324 or the districts for 2002 taxes, retaining commissions of \$18,114 to operate the Sheriff's office. The Sheriff distributed taxes of \$420,882 to the districts for 2002 Taxes. Taxes of \$1,328 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Should Pay All Taxes Due the Districts
- Lacks Adequate Segregation Of Duties

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	7
SHERIFF’S SETTLEMENT – 2002 TAXES.....	9
NOTES TO FINANCIAL STATEMENTS	11
COMMENTS AND RECOMMENDATIONS	15
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	19

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299-1837
Telephone (502) 499-9088
Facsimile (502) 499-9132

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Robert Ray Drake, Powell County Judge/Executive

Honorable Billy Joe Martin, Jr., Powell County Sheriff

Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the Powell County Sheriff's Settlement - 2002 Taxes as of August 1, 2003. This tax settlement is the responsibility of the Powell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Powell County Sheriff's taxes charged, credited, and paid as of August 1, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Robert Ray Drake, Powell County Judge/Executive

Honorable Billy Joe Martin, Jr., Powell County Sheriff

Members of the Powell County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Pay All Taxes Due Districts
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
August 8, 2003

POWELL COUNTY
BILLY JOE MARTIN, JR., COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

August 1, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 54,323	\$ 51,464	\$ 197,850	\$ 77,196
Tangible Personal Property	1,392	1,122	3,768	2,631
Intangible Personal Property				292
Fire Protection	203			
Increases Through Exonerations	16	15	60	23
Franchise Corporation	28,831	24,780	85,953	
Oil and Gas Property Taxes	111	105	406	159
Limestone, Sand, and Mineral Reserves	46	44	168	66
Bank Franchises	3,761			
Penalties	3,192	3,043	11,575	4,098
Gross Chargeable to Sheriff	<u>\$ 91,875</u>	<u>\$ 80,573</u>	<u>\$ 299,780</u>	<u>\$ 84,465</u>
<u>Credits</u>				
Exonerations	\$ 329	\$ 312	\$ 1,198	\$ 468
Delinquents:				
Real Estate	15,197	14,341	55,134	21,512
Tangible Personal Property	1,142	920	3,090	2,054
Delinquent Oil	94	89	343	133
Uncollected Franchise	3	2	8	
Total Credits	<u>\$ 16,765</u>	<u>\$ 15,664</u>	<u>\$ 59,773</u>	<u>\$ 24,167</u>
Taxes Collected	\$ 75,110	\$ 64,909	\$ 240,007	\$ 60,298
Less: Commissions *	<u>3,192</u>	<u>2,759</u>	<u>9,600</u>	<u>2,563</u>
Taxes Due	\$ 71,918	\$ 62,150	\$ 230,407	\$ 57,735
Taxes Paid	71,541	61,765	239,462	57,656
Commission Refunds from School			9,542	
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 377</u>	<u>\$ 385</u>	<u>\$ 487</u>	<u>\$ 79</u>

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
BILLY JOE MARTIN, JR., SHERIFF
SHERIFF'S SETTLEMENT-2002 TAXES
August 1, 2003
(Continued)

* Commissions:

10.0% on	\$	10,000
4.25% on	\$	190,318
4% on	\$	240,006

** Special Taxing Districts:

Library District	\$	166
Health District		96
Extension District		<u>123</u>
Due Districts	\$	<u><u>385</u></u>

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS

August 1, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 1, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
August 1, 2003
(Continued)

Note 4. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 7, through May 30, 2003

Note 5. Interest Income

The Powell County Sheriff earned \$591 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 6. Sheriff's 10% Add-On Fee

The Powell County Sheriff collected \$14,981 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 7. Advertising Costs And Fees

The Powell County Sheriff collected \$12,480 of advertising costs and \$1985 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 8. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the Sheriff had \$408 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENTS AND RECOMMENDATIONS

POWELL COUNTY
BILLY JOE MARTIN, JR., COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of August 1, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Pay All Taxes Due The Districts

The Sheriff owes the following districts taxes from the 2002 tax collections:

State	\$ 79
County	377
School	487
Library	166
Extension	123
Health Department	96

We recommend the sheriff paid all taxes due per audit.

Sheriff's Response:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize the judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be difficult. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend the Sheriff establish a proper segregation of duties over his operations.

Sheriff's Response:

None.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Robert Ray Drake, Powell County Judge/Executive

Honorable Billy Joe Martin, Jr., Powell County Sheriff

Members of the Powell County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Powell County Sheriff's Settlement - 2002 Taxes as of August 1, 2003, and have issued our report thereon dated August 8, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Powell County Sheriff's Settlement - 2002 Taxes as of August 1, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comments and recommendations.

- The Sheriff Should Pay All Taxes Due The Districts

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

Internal Control Over Financial Reporting (Continued)

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -
August 8, 2003

